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23 August 1974

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MEMORANDUM FOR: Mr. Gus W. Weiss  
CIEP  
Executive Office Building

TITLE CIEP NEWS CONFERENCE ON ECONOMIC CONDITIONS

Attached are the questions and answers you  
requested as background for the President's news  
conference on Tuesday.



Acting Director  
Economic Research

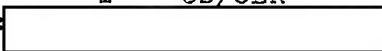
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Q. Do you expect a worldwide economic depression?

A. We do expect a continued period of slow growth rates but no depression. The outlook has been unusually uncertain because of several major world developments, such as the recent oil crisis, but we are monitoring the situation closely in cooperation with other nations to avert any serious economic crisis. For the coming year the OECD projects a resurgence in the rate of economic growth of member countries to about 3%. We are hopeful that a controlled expansion will avoid an increase in unemployment, which as yet has not been a major problem. Our main concern is to reduce inflationary pressure. The gradualness of the expected upturn is designed to forestall further rapid price rises, and it is hoped that increased output will in fact ease pressure on prices in the coming year by lowering production costs.

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Q. But Mr. President, an easing of inflationary pressure has been predicted for some time and yet inflation is seen to be continuing throughout the world. What makes you think that inflationary pressures will ease in the coming year?

A. In recent months, the pace of inflation has slackened. Several nations, among them West Germany, have been successful in holding price rises below what had earlier been anticipated, given the rise in the price of oil and other key commodities. Some raw material prices have eased, and the price of oil has now stabilized. These developments will undoubtedly help hold down inflation rates. . . :

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Q. Given current domestic and international economic problems, can the US maintain its economic leadership in the years ahead?

A. I think it can -- indeed in some respects, it must. But this leadership will be in the form of promoting international economic cooperation rather than in attempting to dominate or to solve the world's economic problems by ourselves. The world economy, under our leadership, has become increasingly integrated and thus increasingly interdependent over the past three decades. The gap between us and other nations in terms of GNP has, of course, narrowed. For example, the US accounted for almost half of world output at the end of World War II, compared to a little more than one quarter now. The narrowing of this gap was again promoted by us, and it is good for us.

We must also remember that, although our economic problems are serious, most other countries are experiencing similar problems, in many cases worse than ours. Japan, for example, has an inflation rate more than double ours; prices in most West European countries are increasing faster than ours. We are having some problems in financing the huge increases in our oil import bill, as well as in paying for various other imported raw materials. But practically every other major country is more dependent on outside sources

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for these commodities than are we and is thus having more difficulties. Our relative strength is thus increasing, not decreasing.

Our problems are global problems. We can't solve them alone and neither can any other one country. But that does not mean that we are helpless. We still have by far the largest economy in the world, larger even than the entire European Community combined. Our size gives us additional responsibilities, but it also gives us strength. In fact, most of the world's economic problems, such as food, energy, or trade inequalities, cannot be solved without our active cooperation. Our leadership thus is necessary and it is in our best interests to provide it.

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Q. The recent problems of the Herstatt Bank of Germany and Franklin National Bank have raised doubts about the world banking system. Is the banking structure sound?

A. The world banking system is adapting to difficult new conditions, and it is basically sound. The Herstatt and Franklin difficulties resulted largely from speculation in foreign exchange markets. Other banks have been weakened by granting unsound loans. In general, conservatively managed banks have not encountered serious difficulties. Central banks now are more closely monitoring the activities of commercial banks and will cooperate with one another in avoiding further bank failures. I see little or no justification for scare stories pointing to a replay of the early 1930s.

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Q. Our Italian allies are on the verge of bankruptcy, an event that could precipitate the end of the coalition government. Do you intend to help Italy?

A. The United States has always had the warmest relations with Italy, and we like to help out friends when they're in trouble. But so far the Italians have not asked for our help. They haven't even made use of the \$3 billion in short-term credits available to them through the Federal Reserve system. In fact, the Italians are making serious efforts to help themselves and are turning to their Common Market partners for some outside assistance.

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Q. France's Gaullist governments often were uncooperative in economic as well as other matters. Do you expect to find the Giscard government easier to deal with?

A. We expect our close relations with France to continue and even to strengthen. The new government has exhibited a constructive spirit of cooperation, particularly on energy problems. We believe that Paris, while continuing to protect French interests, will make a strong effort to coordinate its energy and trade policies with other nations.

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Q. What do you hope to accomplish in the economic sphere during your upcoming trip to Japan?

A. As you know, our bilateral economic relations with Japan have improved substantially over the past year. Our trade deficit with Japan has been reduced to about \$1 billion from a peak of \$4 billion, and communication on various economic matters has increased. We must continue to improve these relations. The Japanese economy -- like ours and those of many European nations -- is currently experiencing the twin problems of sluggish output and rising prices. Because the problem is a global one, an exchange of views on policies to cope with these matters is imperative. In addition, we hope to cooperate closely with Japan in future multilateral trade negotiations and on ways to expand foreign investment in both countries.

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Q. It now appears a compromise trade bill will be enacted by Congress, giving the US authority to negotiate lower tariffs. But world economic priorities have changed since the MTN began a year ago and international enthusiasm for the negotiations seems to have subsided. In view of these changes, what do you feel are the prospects for negotiations to move forward?

A. Although the fight to curb world inflation is the number one problem today, we feel that free trade is still an essential goal. The reduction of trade barriers is just as important now as ever, even though current problems may make agreement more difficult.

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- Q. According to the Department of Agriculture, feedgrain production will be down sharply this year. Do you foresee the necessity for restricting exports of corn, for example, to prevent shortages and higher prices in the US?
- A. The drought did damage our feedgrain crops this year, but we believe supplies will be sufficient to meet both domestic and foreign needs. Relatively high prices will dampen demand abroad, and discussions are underway with major importers to decrease demand for feedgrain by cutting livestock production and by using more roughage, as our farmers are doing. USDA officials have just consulted with the Japanese -- our biggest buyers -- who have indicated that their purchases from the US will be considerably smaller this year than last. If buyers show restraint, we anticipate no need for export restrictions. The situation is being closely monitored, and I can assure you that we will not run out of grain.
- Q. Will the size of the Food Aid Program be affected by the crop shortfall?
- A. It will not be as large as we'd like, but the US, in conjunction with other food exporting nations, will see that essential humanitarian aid needs are met. While the feedgrain situation is very tight, the availability

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- Q. Major bauxite producers under Jamaica's leadership are seeking to emulate the oil producing countries and raise the price of bauxite. How does the US government view the bauxite producers action?
- A. In the short-run, the United States and other countries that import bauxite have little choice but to pay the higher taxes. These countries should realize, however, that their action is accelerating research on the use of low-grade ores in which the US is self-sufficient.

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Q. How are the oil importing countries going to be able to pay their enormous bills for oil?

A. Most countries have not had a serious problem so far.

Although the importing nations will pay \$100 billion for oil this year, this money comes back from the oil producers in payments for their imports or investment. The main problem is seeing that the return flow of oil money is properly distributed among oil importing countries. These flows are currently being directed through private capital markets and international institutions, such as the IMF. We can see some problems in the future for developing countries. We therefore need to encourage oil producers to increase their loans and grants to these nations. This will insure that countries whose credit rating does not permit sufficient private borrowing are able to obtain adequate credit.

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Q. In view of the billions of dollars accumulating in the hands of the oil producers, isn't there a danger of too much foreign ownership of US industry and real estate?

A. I'm not worried about such a prospect. In fact, we welcome investment by foreigners. It is a sign of the confidence they have in the future of our economy, and it creates numerous jobs for Americans. In any case, foreign investment in the US still amounts to only about \$16 billion compared with roughly \$100 billion in US investment abroad.

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Q. But isn't it true that some oil producers have recently become interested in buying into foreign businesses. I'm thinking particularly of the Iran-Krupp arrangement. Do you expect that oil producers will purchase major US companies in the months to come?

A. Fears that the oil producers will dominate western economics have been greatly exaggerated. Iran's investment in Krupp is so far only an isolated case. There is little doubt some producers will purchase a few firms, but this will occur only on a very limited scale. The bulk of producers' corporate investments will take the form of simple stock purchases, mostly involving only minority interests. These nations are concerned with safely placing their wealth through diversified investments and not with gaining economic control of western economies.

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Q. Have oil-producing states decided to purchase special US government securities?

A. Secretary Simon, during his recent trip to the Middle East, discussed the possibility of placing oil revenues in special US government securities. Special issues would provide a secure form of investment to producers while helping the US offset the balance-of-payments burden of more costly oil import. Although there have been numerous rumors that purchases are imminent, producers still have the matter under consideration. OPEC nations already have purchased over \$1.5 billion in regular government obligations so far this year.

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- Q. How will the prospective nationalization of the oil industry in Venezuela affect US supplies and US oil company operations there?
- A. Venezuela has repeatedly assured the US that the needs of traditional customers will continue to be satisfied. Every effort is being made to insure that the transition of the industry to state ownership is made smoothly, and the Venezuelan government says that the companies will be adequately compensated.

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Q. Now that the Saudi oil auction has been postponed, what is the outlook for prices?

A. It does appear that the Saudis have at least temporarily postponed their auction. But pressure on prices continues. Worldwide demand for oil is lower now than a year ago. With a surplus in world production of between 1 and 2 million barrels per day, we still expect some softening in prices.

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USSR

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Q. Mr. President, MFN is evidently an important issue for the Soviets. What do you think of the outlook for US-Soviet trade if a compromise with the Congress on this issue is not forthcoming?

A. First, let me say I think a compromise is forthcoming. Growth in US-Soviet trade obviously will be hampered without MFN, but we'll cross that bridge when we come to it.

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Q. Mr. President, what is your attitude toward extending Eximbank credits to the USSR when the Soviets have refused to provide information on their foreign exchange and gold as requested by Eximbank?

A. I would expect them to be more forthcoming, but that will have to be the subject of further discussions between Mr. Casey and their people. And, of course, we'll have to see what sort of trade bill the Congress passes.

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Q. Mr. President, since the Soviets have greatly improved their payments position as a result of high prices for their oil and gold and their arms sales to the Middle East, what is your attitude toward extending Eximbank credits to them?

A. In spite of the gains you mentioned, they still seem interested in these credits. In any case, we'll have to see what sort of trade bill the Congress passes.

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USSR (continued)

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Q. Mr. President, if the MFN issue is resolved, will the US buy more oil from the USSR? [US imports of oil from the USSR have risen from \$7 million in 1972 to more than \$100 million thus far in 1974.]

A. Yes, if the price is favorable. We want to diversify our sources of supply, and the amounts involved are very small in comparison with our total oil consumption.

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Q. Mr. President, what is your position on extending MFN to the Soviet Union when they restrict the emigration of Jews to Israel?

A. The two issues are not wholly related. While we have a strong dislike for certain aspects of Soviet policy toward Jewish emigration, we must exercise what influence we have very quietly in these matters. As for trade, we think its expansion will prove valuable to both sides and will lead to a general relaxation of tension.

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Q. Mr. President, are you willing to sell large amounts of grain to the USSR, when the US Department of Agriculture has just cut its estimate of the US crop?

A. It looks as if the USSR will have a reasonably good crop this year, and their grain stocks are high. So I don't expect them to seek large quantities of US grain this year. But if they do make inquiries, we'll have to study very carefully our own needs and the needs of other countries which are very high.

USSR (continued)

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Q. Mr. President, what is the status of negotiations with the USSR on LNG (liquified natural gas) projects? Are we going to invest billions of dollars in these ventures, when we can put that money into domestic projects.

A. These projects are still very much up in the air. [The North Star Project (Western Siberia) is in a state of "suspension"; negotiations on Eastern Siberia (Yakutsk) are still going on.] Decisions on Project Independence will help determine US policy on the LNG venture.

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Q. Mr. President, do you think we are in danger of transferring too much technology to the USSR, technology that could endanger our security?

A. We are now making a careful review of this subject. We want to steer a middle course. We want our businessmen to have every fair opportunity to do business with the Communist countries. Yet, there are some aspects of technology which we will want to keep at home or export only after careful consideration.

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Question

What is the present status of our commercial relations with the People's Republic of China?

Answer

Economic relations have shown satisfactory progress since the Shanghai Communiqué. Last year, for example, the United States was China's second largest trading partner behind Japan.

- . The United States exported \$689 million
- . The United States imported \$64 million

This year trade continues to grow.

- . US exports are expected to exceed \$1 billion
- . US imports should reach \$100 million

On an institutional level Sino-US commercial relations also have developed.

- . A private organization of US businessmen established the National Council for US-China Trade to promote commercial relations between the two countries.
- . Commercial representatives from the US Liaison Office in Peking, as well as representatives from the National Council, now attend the semi-annual Canton Trade Fairs on a regular basis to assist US businessmen.

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India

QUESTION: How much grain has the US sold to India this year? Will India need additional US grain to feed its people this year?

ANSWER: The US has sold India about 2 million tons of grain this year and about 1 million tons of that has been shipped. India has not requested gifts of US grain but has arranged for grain imports from a number of countries. There is no reason to believe at this time that these imports plus domestic production will fail to meet the country's grain requirements.

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Brazil

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QUESTION: The U.S. appears ready to impose countervailing or penalty duties on shoes imported from Brazil and is considering similar action against Argentina.

Does this indicate that the U.S. is turning away from the "special relationship" with Latin America announced by Secretary Kissinger earlier this year?

ANSWER: U.S. law requires the Secretary of the Treasury to impose countervailing duties on imports that are subsidized by an exporting country. The amount of the added duty must be sufficient to compensate for the subsidy. The Secretary has no discretion in the matter if his investigation shows that exporters enjoy the benefits of a subsidy. In the Brazilian shoe case, a thorough investigation has indicated that Brazilian exporters do receive some advantages recognized as a subsidy under UN rules. Imposition of additional duties under these circumstances clearly would be a matter of U.S. law and would not reflect a change in our attitude toward Brazil or Latin America in general.

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